

Message Text

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C O N F I D E N T I A L STATE 061585

E.O. 11652: GDS

TAGS: ETRD, PFOR, GE, US

SUBJECT: PROPOSALS FOR BILATERAL TAX CONVENTION AND JOINT
ECONOMIC COMMISSION

1. DURING RECENT MEETING BETWEEN SECRETARY OF THE
TREASURY BLUMENTHAL AND GDR AMBASSADOR SIEBER, THE
QUESTIONS OF A BILATERAL TAX CONVENTION AND THE
ESTABLISHMENT OF A JOINT INTERGOVERNMENTAL ECONOMIC
COMMISSION AROSE. TREASURY HAS SUBSEQUENTLY ASKED THE
DEPARTMENT FOR ITS VIEWS ON THESE TWO ISSUES AND WE ARE
PLANNING TO RESPOND ALONG THE LINES DESCRIBED BELOW.
BEFORE DOING SO, DEPARTMENT WOULD APPRECIATE THE EMBASSY'S
VIEWS.

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2. THE US HAS ALREADY ENTERED INTO TAX CONVENTIONS WITH
A NUMBER OF COUNTRIES, INCLUDING THE USSR, POLAND AND
ROMANIA. THESE CONVENTIONS ADDRESS THE PROBLEM OF
DOUBLE TAXATION ON US FIRMS OPERATING IN OTHER COUNTRIES
AND VICE VERSA. THE DEPARTMENT BELIEVES THAT IT WOULD BE
IN THE US INTEREST TO HAVE A TAX CONVENTION WITH THE GDR.

ALTHOUGH DOUBLE TAXATION DOES NOT APPEAR TO BE A PROBLEM BETWEEN US AT THIS STAGE OF RELATIONS, IT COULD WELL BECOME ONE AS TRADE RELATIONS DEVELOP. FURTHER, A TAX CONVENTION WOULD REPRESENT A POSITIVE, BUT NON-POLITICAL STEP TOWARD MORE NORMAL RELATIONS--AS IN THE CASE OF THE PARCEL POST AGREEMENT CURRENTLY UNDER CONSIDERATION. IN THIS REGARD, THE DEPARTMENT ALSO BELIEVES THAT THE NEGOTIATION OF A TAX CONVENTION WOULD NOT UNDERMINE OUR POLICY OF LINKING AGREEMENT ON A CONSULAR CONVENTION TO SUBSTANTIVE PROGRESS IN OTHER AREAS OF BILATERAL RELATIONS.

3. JOINT ECONOMIC COMMISSION: THE DEPARTMENT POSITION AGAINST THE ESTABLISHMENT OF AN INTERGOVERNMENTAL JOINT ECONOMIC COMMISSION WITH THE GDR REMAINS UNCHANGED. WE BELIEVE THAT RELATIONS WITH THE GDR HVE NOT PROGRESSED TO THE POINT WHERE SUCH A COMMISSION WOULD BE A LOGICAL NEXT STEP. WE HAVE TOLD THE GDR REPEATEDLY THAT WE WISH TO REACH AGREEMENT ON A CONSULAR CONVENTION BEFORE WE WOULD BE IN A POSITION TO ACCELERATE THE PACE AND SCOPE OF OUR RELATIONS. HAVING MADE A POINT OF THIS, WE BELIEVE THAT WE SHOULD BE CONSISTENT. THE DEPARTMENT HAS GIVEN ITS APPROVAL TO THE FORMATION OF A JOINT US-GDR TRADE AND ECONOMIC COUNCIL WHICH WILL BE ORGANIZED PRIVATELY ON THE US SIDE. THIS PROJECT IS JUST NOW GETTING UNDERWAY AND IT SEEMS TO US THAT TO JUMP FROM A PRIVATE COUNCIL TO AN INTERGOVERNMENTAL COMMISSION WOULD BE PUTTING THE CART BEFORE THE HORSE.

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4. EMBASSY'S VIEWS REQUESTED.
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